

ORIGINAL



0000028320

32SR

1 Timothy M. Hogan (004567)
2 ARIZONA CENTER FOR LAW
3 IN THE PUBLIC INTEREST
4 202 E. McDowell Rd., Suite 153
5 Phoenix, Arizona 85004
6 (602) 258-8850

RECEIVED

AZ CORP COMMISSION
DOCUMENT CONTROL

2005 SEP 13 P 3:13

Attorneys for Southwest Energy Efficiency
Project and Natural Resources Defense Council

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8 JEFF HATCH-MILLER, CHARIMAN
9 MARC SPITZER
10 WILLIAM A. MUNDELL
11 MIKE GLEASON
12 KRISTIN K. MAYES

13 IN THE MATTER OF THE APPLICATION OF
14 SOUTHWEST GAS CORPORATION FOR THE
15 ESTABLISHMENT OF JUST AND
16 REASONABLE RATES AND CHARGES
17 DESIGNED TO REALIZE A REASONABLE
18 RATE OF RETURN ON THE FAIR VALUE OF
19 THE PROPERTIES OF SOUTHWEST GAS
20 CORPORATION DEVOTED TO ITS
21 OPERATIONS THROUGHOUT THE STATE
22 OF ARIZONA

Docket No. G-01551A-04-0876

**NOTICE OF FILING WRITTEN
SURREBUTTAL TESTIMONY**

23 Southwest Energy Efficiency Project and Natural Resources Defense Council, through
24 their undersigned counsel, hereby provides notice they have this day filed the written surrebuttal
25 testimony of Jeff Schlegel in connection with the above-captioned matter.

///

///

1 **DATED** this 13th day of September, 2005.

2 ARIZONA CENTER FOR LAW IN
3 THE PUBLIC INTEREST

4 By 

5 Timothy M. Hogan
6 202 E. McDowell Rd., Suite 153
7 Phoenix, Arizona 85004
8 Attorneys for Southwest Energy
 Efficiency Project and Natural Resources
 Defense Council

9 ORIGINAL and 13 COPIES of
10 the foregoing filed this 13th day
 of September, 2005, with:

11 Docketing Supervisor
12 Docket Control
13 Arizona Corporation Commission
 1200 W. Washington
 Phoenix, AZ 85007

14 COPIES of the foregoing
15 mailed this 13th day of
 September, 2005 to:

16 Andrew Bettwy
17 Southwest Gas Corporation
18 5241 Spring Mountain Road
 Las Vegas, NV 89102

 Walter W. Meek
 AUIA
 2100 N. Central Avenue, Suite 210
 Phoenix, AZ 85004

19 Raymond S. Heyman
20 Laura E. Sixkiller
21 Roshka, Heyman & DeWulf
22 One Arizona Center
23 400 E. Van Buren Street, Suite 800
 Phoenix, AZ 85004
 Attorneys for Tucson Electric Power
 Company

 Cynthia Zwick
 Arizona Community Action Association
 2700 N. 3rd Street, Suite 3040
 Phoenix, AZ 85004

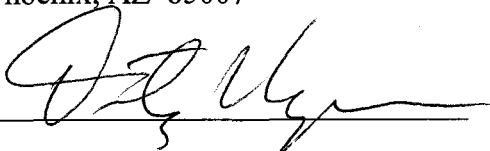
24 Michelle Livengood
25 Tucson Electric Power Company
 One S. Church Street, Suite 200
 Tucson, AZ 85702

 Thomas H. Campbell
 Lewis and Roca
 40 N. Central Avenue
 Phoenix, AZ 85004
 Attorneys for Yuma Cogeneration
 Associates

1 Peter Q. Nyce, Jr.
2 General Attorney
3 Regulatory Law Office
4 Department of Army
5 901 N. Stuart Street
6 Arlington, VA 22203-1837

7 Scott S. Wakefield
8 RUCO
9 1110 W. Washington, Suite 220
10 Phoenix, AZ 85007

11 Ernest G. Johnson, Director
12 Utilities Division
13 Arizona Corporation Commission
14 1200 W. Washington Street
15 Phoenix, AZ 85007

16 
17

Thomas L. Mumaw
Karilee S. Ramaley
Pinnacle West Capital Corporation
MS 8695
Phoenix, AZ 85004

Christopher Kempley, Chief Counsel
Legal Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, CHAIRMAN
MARC SPITZER
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF
SOUTHWEST GAS CORPORATION FOR THE
ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES
DESIGNED TO REALIZE A REASONABLE
RATE OF RETURN ON THE FAIR VALUE OF
THE PROPERTIES OF SOUTHWEST GAS
CORPORATION DEVOTED TO ITS
OPERATIONS THROUGHOUT THE STATE
OF ARIZONA.

Docket No. G-01551A-04-0876

Surrebuttal Testimony of

Jeff Schlegel

on behalf of

**Southwest Energy Efficiency Project and
Natural Resources Defense Council
(SWEEP/NRDC)**

September 13, 2005

**Surrebuttal Testimony of Jeff Schlegel, SWEEP/NRDC
Docket No. G-01551A-04-0876**

Table of Contents

| | |
|--|---|
| Introduction | 1 |
| Increased DSM Programs and Funding for Southwest Gas Customers | 1 |
| Financial Disincentive to Natural Gas Utility Support of Energy Efficiency | 4 |
| Customer Rate Design: Fixed Charges and Flat or One-Tier Rate | 5 |
| Conclusion | 5 |

Exhibit JS-2: Preliminary DSM Plan for Southwest Gas

Introduction

1
2
3
4 Q. Please state your name and business address.

5
6 A. My name is Jeff Schlegel. My business address is 1167 W. Samalayuca Drive,
7 Tucson, Arizona 85704-3224.
8
9

10 Q. For whom are you testifying?
11

12 A. I am testifying on behalf of the Southwest Energy Efficiency Project and the Natural
13 Resources Defense Council (SWEEP/NRDC).
14
15

16 Q. Did you sponsor direct testimony in this proceeding on behalf of SWEEP/NRDC?
17

18 A. Yes.
19
20

21 Q. What is the purpose of your surrebuttal testimony?
22

23 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of
24 Southwest Gas, specifically the rebuttal testimony of witnesses Giesecking and Scott,
25 and to the direct testimony of Commission Staff and RUCO. In my surrebuttal
26 testimony I support the increased Demand Side Management (DSM) programs and
27 funding proposed by Southwest Gas plus the two DSM modifications proposed by
28 SWEEP/NRDC, discuss related DSM issues including collaborative review and
29 Commission approval, discuss the financial disincentive to natural gas utility support
30 of energy efficiency, oppose higher fixed charges for Southwest Gas customers, and
31 support the one-tier rate structure proposed by RUCO.
32
33

34 **Increased DSM Programs and Funding for Southwest Gas Customers**
35

36 Q. Do SWEEP/NRDC and the other parties support increased DSM programs and
37 funding for Southwest Gas customers?
38

39 A. Yes. With the exception of the bill assistance element of the LIEC program (which I
40 will address below), none of the parties opposed the increased DSM programs and
41 funding proposed by Southwest Gas, and Staff and RUCO supported the increased
42 DSM programs and funding explicitly.¹ SWEEP/NRDC support the two existing and

¹ Direct testimony of Steve Irvine (Staff) p. 10, lines 3-5; p. 12, lines 3-6; and p. 13, line 5 (with the exception of the \$50,000 bill assistance element of the LIEC program). Direct testimony of Marylee Diaz Cortez (RUCO) p. 24, lines 13-20 and p. 25, lines 2-7.

1 seven additional natural gas DSM programs, and in my direct testimony I proposed
2 that DSM program funding increase from \$4.385 million proposed by Southwest Gas
3 to \$5.135 million, to ensure that at least \$1 million is available to support the
4 residential new construction program (ENERGY STAR Home Certification)
5 throughout the Southwest Gas service territory.
6

7 In addition, I proposed a positive performance incentive that Southwest Gas would
8 earn if it implements effective DSM programs that meet program goals, resulting in a
9 maximum performance incentive of \$513,500 in 2006, based on 10% of 2006 DSM
10 program funding of \$5.135 million. Total DSM funding would be \$5.6485 million
11 including the maximum performance incentive amount.
12
13

14 Q. Please summarize the Preliminary DSM Plan that SWEEP/NRDC recommend for
15 Commission review and approval at this time, subsequent to your review of
16 Southwest Gas rebuttal testimony and the direct testimony of other parties.
17

18 A. Exhibit JS-2 (herein) summarizes the Preliminary DSM Plan that SWEEP/NRDC
19 recommend at this time, which is a table representation of the DSM programs and
20 funding levels I recommended in my direct testimony. SWEEP/NRDC agree that
21 Southwest Gas should file a Final DSM Plan with program descriptions, budgets, and
22 cost-effectiveness analysis for Commission review and approval within 120 days of
23 the Commission's order in the Southwest Gas rate case, as Staff, RUCO, and
24 Southwest Gas have recommended. However, SWEEP/NRDC will continue to
25 encourage Southwest Gas to file the Final DSM Plan earlier if possible, so that DSM
26 programs are approved by the Commission and available to assist customers as soon
27 as possible.
28
29

30 Q. Does Southwest Gas support the Preliminary DSM Plan including the modifications
31 proposed by SWEEP/NRDC?
32

33 A. Yes. In its rebuttal testimony, Southwest Gas requested that the Commission approve
34 all of the DSM programs and funding proposed by Southwest Gas as well as the two
35 modifications proposed by SWEEP/NRDC (i.e., increased funding for ENERGY
36 STAR Home Certification and the positive performance incentive).²
37

38 SWEEP/NRDC urge Commission approval of the Preliminary DSM Plan, as a
39 preliminary list of DSM programs and budgets, in the Commission order in this rate
40 case. The proposed DSM programs, upon approval of the Final DSM Plan by the
41 Commission, will provide significant and cost-effective benefits for Southwest Gas
42 customers.
43

² Rebuttal Testimony of Vivian Scott. p. 5, lines 10-17.

1
2 Q. What is your response to Staff's exception to \$50,000 of DSM funding for the bill
3 assistance element of the LIEC program?³
4

5 A. SWEEP/NRDC support up to \$50,000 in DSM funding for the bill assistance element
6 of the LIEC program since it is a relatively low level of DSM funding focused on
7 emergency situations of low income customers, and given the additional information
8 provided in Southwest Gas rebuttal testimony.⁴ If the \$50,000 is not spent on bill
9 assistance emergencies in a given year, it should be allocated to weatherization.
10 SWEEP/NRDC suggest that the funding remain in the Preliminary DSM Plan budget
11 at this time, and that any proposed revisions to the scope and budget of the LIEC
12 program, including the bill assistance element, be reviewed by the collaborative DSM
13 working group prior to Southwest Gas submitting a Final DSM Plan.
14

15
16 Q. What is your response to RUCO's DSM program development and approval process,
17 including the collaborative DSM working group?⁵
18

19 A. SWEEP/NRDC support RUCO's recommended process and agree that Southwest
20 Gas should implement and maintain a collaborative DSM working group, as stated in
21 my direct testimony. I respectfully suggest two additions to RUCO's process (both of
22 which were included in my direct testimony): add to the end of the last task of the
23 collaborative so that it reads "...and review DSM program performance including
24 program evaluations and reports;" and add AECC, the Arizona State Energy Office,
25 and NRDC to the list of organizations to be invited to participate in the collaborative
26 DSM working group.
27

28
29 Q. Should the DSM programs be approved by the Commission regardless of the outcome
30 of the CMT and customer rate design issues, even though Southwest Gas states that
31 the increased energy efficiency programs and the CMT were proposed together?⁶
32

33 A. Yes. While SWEEP/NRDC are sympathetic to the financial issues Southwest Gas has
34 raised, including the declining average consumption per residential customer and the
35 impact of additional energy savings on Southwest Gas (which I discuss below), and
36 while SWEEP/NRDC support the joint statement of AGA and NRDC, I recommend
37 that the DSM programs and funding be approved by the Commission in any event,
38 and not be linked to the outcome of the CMT and customer rate design issues,
39 because of the significant cost-effective benefits to customers including the assistance
40 to customers in mitigating future increases in natural gas prices.

³ Direct testimony of Steve Irvine, p. 12, beginning at line 10.

⁴ Rebuttal testimony of Vivian Scott, p. 3, beginning at line 18.

⁵ Direct testimony of Marylee Diaz Cortez, p. 26, beginning at line 5.

⁶ Rebuttal testimony of Vivian Scott, p. 7, beginning at line 24; Rebuttal testimony of Ed Giesekeing, p. 22, beginning at line 5, and p. 26, beginning at line 25.

Financial Disincentive to Natural Gas Utility Support of Energy Efficiency

Q. Did anything you read in Southwest Gas rebuttal testimony or in the direct testimony of other parties change the fundamental position of SWEEP/NRDC regarding the financial disincentive to Southwest Gas support of energy efficiency and the CMT proposed by Southwest Gas?

A. No. SWEEP/NRDC continue to state that traditional utility regulation, which links the utility's financial health to the volume of natural gas sold, results in a financial disincentive to invest in energy efficiency and other demand-side resources that reduce natural gas sales. SWEEP/NRDC also continue to support the joint statement of AGA and NRDC. SWEEP/NRDC clarify that this financial disincentive is not limited to support for DSM programs; it also could impede potentially crucial utility support for energy-efficiency standards, building energy codes, and other policies that serve societal interests and reduce energy use without requiring any direct utility or utility ratepayer investment.

From my reading of the rebuttal and direct testimony, there does not appear to be disagreement that a financial disincentive exists. However, there appears to be disagreement about the specific causes of the decline in average consumption per residential customer, and there is disagreement regarding which (if any) mechanism(s) to implement to address the financial disincentive.

SWEEP/NRDC strongly recommend that the financial disincentive to natural gas utility support of energy efficiency be addressed in Arizona in a timely manner. We believe this will be necessary if Arizona wants to fully tap the potential for its lowest cost natural gas resource – cost-effective energy efficiency improvements.

SWEEP/NRDC continue to believe that the gas utility financial disincentive issue and a full analysis of the pros and cons of mechanisms for removing the financial disincentive, including but not limited to the CMT, should be reviewed and evaluated prior to Commission adoption of a specific mechanism. This issue would benefit from a broader and more in-depth discussion, in this proceeding or in another forum.

If not addressed fully in this proceeding, SWEEP/NRDC recommend that the issue of the financial disincentive and potential mechanisms to address it be discussed in the DSM policy process, either through additional comments on the proposed DSM policies or through additional DSM policy workshops. Proposed policies or mechanisms resulting from the DSM policy process should then be submitted to the Commission. SWEEP/NRDC recommend that any such workshop commence within 60 days of the Commission order in this case, with a workshop report filed with the Commission no later than 180 days of the order.

Customer Rate Design: Fixed Charges and Flat or One-Tier Rate

Q. Should the Commission approve higher fixed charges for Southwest Gas, as proposed by Southwest Gas (as an alternative to the CMT) and by other parties?

A. No. SWEEP/NRDC oppose higher fixed charges for natural gas customers because higher fixed charges would mute and reduce the price signal customers would receive when they reduce energy use and become more energy efficient, and therefore would reduce the power they have over their own energy bills.

Q. Does the joint statement of AGA and NRDC support higher fixed charges in customer rate design, as Southwest Gas and Staff infer?⁷

A. No. The joint statement of AGA and NRDC in no way supports increases in fixed customer charges as a means to eliminate financial disincentives for promoting conservation and energy efficiency. The AGA/NRDC joint statement is explicit in stating that the "utility rate proposals" referred to by Southwest Gas and Staff that NRDC and AGA support are those that "use modest automatic rate true-ups to ensure that a utility's opportunity to recover authorized fixed costs is not held hostage to fluctuations in retail gas sales."

Q. What is your response to the flat or one-tier rate structure proposed by RUCO?⁸

A. SWEEP/NRDC support the concept of a flat or one-tier rate structure proposed by RUCO, and do not support the continuation of a two-tiered declining rate structure. A one-tier rate structure would provide greater encouragement for customers to reduce their natural gas consumption through increased energy efficiency and conservation.

Conclusion

Q. Please provide an overall conclusion for your surrebuttal testimony.

A. SWEEP/NRDC support the DSM programs proposed by Southwest Gas along with the two SWEEP/NRDC modifications. SWEEP/NRDC urge Commission approval of the Preliminary DSM Plan in this rate case.

SWEEP/NRDC urge the Commission to implement programs, policies, and mechanisms that *encourage* cost-effective energy efficiency, not discourage it, for customers and for natural gas utilities. SWEEP/NRDC continue to recommend that

⁷ Rebuttal testimony of Ed Giesecking, p. 20, beginning at line 2. Direct testimony of William Musgrove (Staff), p. 14, beginning at line 5.

⁸ Direct testimony of Marylee Diaz Cortez, p. 35, lines 3-18.

1 the financial disincentive to natural gas utility support of energy efficiency be
2 addressed in Arizona in a timely manner. Increasing natural gas energy efficiency
3 will provide significant and cost-effective benefits for Southwest Gas customers, the
4 natural gas and electric utility systems, the economy, and the environment.
5

6
7 Q. Does that conclude your surrebuttal testimony?
8

9 A. Yes.
10

**Preliminary DSM Plan for Southwest Gas
SWEEP/NRDC
September 13, 2005**

| | |
|---|---------------------|
| RESIDENTIAL | |
| Low Income Energy Conservation | \$ 500,000 |
| ENERGY STAR Home Certification | 1,000,000 |
| Multi-Family New Construction | 1,200,000 |
| Residential Energy Conservation | 200,000 |
| ENERGY STAR Appliances | 800,000 |
| COMMERCIAL | |
| Food Service Equipment | 500,000 |
| Efficient Commercial Building Design | 500,000 |
| Technology Information Center | 35,000 |
| INDUSTRIAL | |
| Distributed Generation | 400,000 |
| | |
| Subtotal for DSM Programs | \$ 5,135,000 |
| Performance Incentive (capped at 10% of DSM program cost) | 513,500 |
| TOTAL | \$ 5,648,500 |

Note: Southwest Gas should file a Final DSM Plan with program descriptions, budgets, and cost-effectiveness analysis for Commission review and approval within 120 days of the Commission's order in the Southwest Gas rate case.